

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



19TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA BARBARA FAIR & EXPO
SANTA BARBARA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-016
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

19TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA BARBARA FAIR & EXPO
SANTA BARBARA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Alicia Lauron, CPA
Hardeep Kaur

Audit Chief
Assistant Audit Chief
Audit Manager
Auditor

AUDIT REPORT NUMBER

#09-016

19th DISTRICT AGRICULTURAL ASSOCIATION
SANTA BARBARA FAIR & EXPO
SANTA BARBARA, CALIFORNIA

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report.....	1
Financial Statements.....	3
Notes to the Financial Statements	6
Report Distribution	13



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Edgar Sands, President
Board of Directors
19th DAA, Santa Barbara Fair & Expo
3400 Calle Real
Santa Barbara, California 93105

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 19th District Agricultural Association (DAA), Santa Barbara Fair & Expo, Santa Barbara, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 19th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

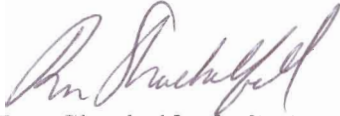
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 19th DAA, Santa Barbara Fair & Expo, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 19th DAA, Santa Barbara Fair & Expo has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-016, on the 19th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 19th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in dark ink, appearing to read "Ron Shackelford", is positioned above the printed name.

Ron Shackelford, CPA
Chief, Audit Office

June 19, 2009

**19TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA BARBARA FAIR & EXPO
SANTA BARBARA, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007**

	<u>Account Number</u>	<u>2008</u>	<u>2007</u>
ASSETS			
Cash & Cash Equivalents	111 - 117	\$ 755,847	\$ 678,040
Accounts Receivable, Net	131,133	48,977	70,698
Land	191	213,778	213,778
Buildings and Improvements, Net	192	2,811,273	2,994,083
Equipment, Net	193	7,786	9,213
Capital Lease-Photovoltaic, Net	194	1,414,303	1,473,232
TOTAL ASSETS		<u>5,251,963</u>	<u>5,439,044</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable, Other Payables	212, 221-226	34,943	33,055
Current Portion of Long Term Debt	212.5	99,796	87,157
Deferred Income	228	115,702	77,885
Guarantee Deposits	241	10,000	10,200
Compensated Absences Liability	245	187,793	172,425
Credit Card Liability	249	500	-
Long Term Debt	250	1,349,084	1,449,666
Total Liabilities		<u>1,797,818</u>	<u>1,830,388</u>
Net Resources			
Net Resources - Operations	291	356,090	368,015
Net Resources - Capital Assets, less Debt	291.1	3,098,055	3,240,641
Total Net Resources Available		<u>3,454,145</u>	<u>3,608,656</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 5,251,963</u>	<u>\$ 5,439,044</u>

**19TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA BARBARA FAIR & EXPO
SANTA BARBARA, CALIFORNIA**

**STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2008 and 2007**

	<u>Account Number</u>	<u>2008</u>	<u>2007</u>
REVENUE			
State Apportionment/Capital Project Funds	312-319	\$ 97,470	\$ 134,785
Admissions	410	149,601	158,556
Commercial Space	415	15,422	12,500
Carnival	421	207,701	213,661
Food Concessions	422-423	39,252	45,242
Exhibits	430	9,906	14,298
Horse Show	440	408,138	402,335
Satellite Wagering	450	357,475	395,690
Miscellaneous Fair	470	97,252	55,154
Miscellaneous Non-Fair	471	156,599	246,143
Non-Fair Revenue	480	1,236,252	1,132,894
Prior Year Adjustment	490	7,104	11,255
Other Revenue	495	63,310	37,762
Total Revenue		<u>2,845,482</u>	<u>2,860,273</u>
EXPENSES			
Administration	500	613,607	569,906
Maintenance and Operations	520	1,037,723	1,007,462
Publicity	540	79,774	73,244
Attendance	560	54,578	56,515
Miscellaneous Fair	570	200,448	23,724
Miscellaneous Non-Fair	571	-	174,333
Premiums	580	12,715	19,280
Exhibits	630	64,867	52,150
Horse Show	640	251,249	259,945
Satellite Wagering Expense	650	372,186	355,728
Attractions - Fairtime	660	60,890	36,836
Prior Year Adjustments	800	4,707	31,659
Cash Over/Short from Ticket Sales	850	616	730
Depreciation Expense	900	246,633	247,870
Total Expenses		<u>2,999,993</u>	<u>2,909,380</u>
RESOURCES			
Net Change - Income / (Loss)		(154,511)	(49,108)
Resources Available, January 1		3,608,656	3,657,763
Resources Available, December 31		<u>\$ 3,454,145</u>	<u>\$ 3,608,656</u>

**19TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA BARBARA FAIR & EXPO
SANTA BARBARA, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ (154,511)	\$ (49,107)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	21,722	(18,062)
(Increase) Decrease in Deferred Charges	-	4,240
Increase (Decrease) in Current Portion of Long-term Debt	12,639	3,567
Increase (Decrease) in Deferred Income	37,817	39,866
Increase (Decrease) in Accounts Payable, Other Payables	1,888	(20,004)
Increase (Decrease) in Compensated Absence Liability	15,368	16,575
Increase (Decrease) in Guarantee Deposits	(200)	-
Increase (Decrease) in Credit Card Liability	500	-
Total Adjustments	<u>89,733</u>	<u>26,181</u>
Net Cash Provided (Used) by Operating Activities	<u>(64,777)</u>	<u>(22,926)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction In Progress	-	23,374
(Increase) Decrease in Buildings & Improvements	182,811	23,230
(Increase) Decrease in Photovoltaic Capital Lease	58,929	58,929
(Increase) Decrease in Equipmen	<u>1,427</u>	<u>2,350</u>
Net Cash Provided (Used) by Investing Activities	<u>243,167</u>	<u>107,883</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	<u>(100,582)</u>	<u>22,872</u>
Net Cash Provided (Used) by Financing Activities	<u>(100,582)</u>	<u>22,872</u>
NET INCREASE (DECREASE) IN CASH	77,808	107,829
Cash at Beginning of Year	678,040	570,211
CASH AT END OF YEAR	<u><u>\$ 755,848</u></u>	<u><u>\$ 678,040</u></u>

**19th DISTRICT AGRICULTURAL ASSOCIATION
SANTA BARBARA FAIR & EXPO
SANTA BARBARA, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 19th District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Santa Barbara Fair & Expo each year in Santa Barbara, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned

rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no

depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2

NEW ACCOUNTING STANDARDS

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, ("GASB Statement No. 49"). GASB Statement No. 49 requires governmental entities

to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2008</u>	<u>2007</u>
Petty Cash& Change Fund	\$ 637	\$ 3,217
Cash in Bank - Operating	25,408	23,777
Cash in Bank - Premium	0	0
Cash in Bank - Payroll	1,377	1,753
Cash in Bank - Investment & Savings	<u>728,425</u>	<u>649,293</u>
Total Cash and Cash Equivalents	<u>\$ 755,847</u>	<u>\$ 678,040</u>

NOTE 4 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	<u>2008</u>	<u>2007</u>
Accounts Receivable -Trade	\$ 90,773	\$ 87,685
Accounts Receivable- CCA	0	6,350
Allowance for Doubtful Accounts	<u>(41,796)</u>	<u>(23,337)</u>
Accounts Receivable - Net	<u>\$ 48,977</u>	<u>\$ 70,698</u>

NOTE 5 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2008</u>	<u>2007</u>
Building & Improvements	\$ 7,406,903	\$ 7,414,343
Less: Accumulated Depreciation	<u>(4,595,630)</u>	<u>(4,420,260)</u>
Building & Improvements - Net	<u>\$ 2,811,273</u>	<u>\$ 2,994,083</u>
Equipment	\$ 271,183	\$ 268,252
Less: Accumulated Depreciation	<u>(263,397)</u>	<u>(259,039)</u>
Equipment – Net	<u>\$ 7,786</u>	<u>\$ 9,213</u>
Capital Lease – Photovoltaic	\$ 1,767,878	\$ 1,767,878
Less: Accumulated Depreciation	<u>(353,575)</u>	<u>(294,646)</u>
	<u>\$ 1,414,303</u>	<u>\$ 1,473,232</u>

NOTE 6**LONG-TERM DEBT**

The DAA has entered into a long-term loan agreement with California Construction Authority (CCA) to finance the Photovoltaic power-generating project, Infrastructure and Marquee projects on the fairgrounds. The terms of the agreement are as follows:

1. CCA Photovoltaic Principal:

Loan Amount	\$613,121
First Payment Date	August 1, 2003
Payment Amount	\$5,875
Duration of Loan	18 years
Interest Rate	5.00% to 5.50%
Total Outstanding at 12/31/08	\$ 398,942

2. F & E Loan Principal:

Loan Amount	\$300,000
First Payment Date	August 1, 2003
Total Outstanding at 12/31/08	\$297,509

Although the CCA and F & E loans are shown separately above, the current year and long-term portions are shown as a combined total:

Current Portion at 12/31/08	\$44,880
Long-Term Portion at 12/31/08	\$651,571

3. CCA Infrastructure Principal:

Loan Amount	\$774,000
First Payment Date	August 1, 2004
Payment Amount	\$5,234
Duration of Loan	40 years
Interest Rates	2.70% APR
Total Outstanding at 12/31/08	\$643,186

Current Portion at 12/31/08	\$46,010
Long-Term Portion at 12/31/08	\$597,176

4. CCA Marque Principal:

Loan Amount	\$112,812
First Payment Date	August 1, 2008
Payment Amount	\$1,224
Duration of Loan	10 years
Interest Rate	5.5% APR
Total Outstanding at 12/31/08	\$109,243

Current Portion at 12/31/08	\$8,906
Long-Term Portion at 12/31/08	\$100,337

NOTE 7 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 8 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**19th DISTRICT AGRICULTURAL ASSOCIATION
SANTA BARBARA FAIR & EXPO
SANTA BARBARA, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 19th DAA Board of Directors
1	Chief Executive Officer, 19th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



19TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA BARBARA FAIR & EXPO
SANTA BARBARA, CALIFORNIA

MANAGEMENT REPORT #09-016

YEAR ENDED DECEMBER 31, 2008

19TH DISTRICT AGRICULTURAL ASSOCIATION
SANTA BARBARA FAIR & EXPO
SANTA BARBARA, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Alicia Lauron, CPA
Hardeep Kaur

Audit Chief
Assistant Audit Chief
Audit Manager
Auditor

MANAGEMENT REPORT NUMBER
#09-016

TABLE OF CONTENTS

	<u>PAGE</u>
MANAGEMENT LETTER.....	1
REPORTABLE CONDITIONS	3
Cash Controls	3
Allowance For Doubtful Accounts	3
Accounting For Fixed Assets	4
Personnel	5
Opportunity Purchasing.....	5
NON-REPORTABLE CONDITIONS	6
Compensated Leave Liability.....	6
Cancelled Checks	6
Food & Beverage Expenditures	6
Temporary Employees	7
Independent Contractors	8
Standard Agreements	8
Cash Accounts / Bank Reconciliation.....	9
DISTRICT AGRICULTURAL ASSOCIATION’S RESPONSE.....	10
CDFA EVALUATION OF RESPONSE.....	14
DISPOSITION OF AUDIT RESULTS.....	15
REPORT DISTRIBUTION	16



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Edgar Sands, President
Board of Directors
19th DAA, Santa Barbara Fair & Expo
3400 Calle Real
Santa Barbara, California 93514

In planning and performing our audit of the financial statements of the 19th District Agricultural Association (DAA), Santa Barbara Fair & Expo, Santa Barbara, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Santa Barbara Fair & Expo with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 19th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 19th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 19th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 19th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 19th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 19th DAA and compliance with state laws and regulations, we identified five areas with reportable conditions that are considered weaknesses in the Fair's operations: cash controls, allowance for doubtful accounts, accounting for fixed assets, personnel, and opportunity purchasing. We have provided eight recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 19th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

CASH CONTROLS

An examination of the Fair's internal controls over the administration of its automated teller machine (ATM) revealed the Fair exposed itself to loss by not performing monthly reconciliations of the ATM cash transactions. Our office noted that the Fair did not perform a monthly reconciliation of the ATM transactions, bank activity, and the amounts recorded in the ATM change fund general ledger account. Also, the Fair did not maintain the trial cassette close tapes or the transaction summaries for each month-end. As a result, the Fair could not support the balance recorded in the general ledger. The monthly reconciliation serves two purposes: (i) to ensure amounts on hand in the ATM machine, and (ii) to ensure any discrepancies can be detected in a timely manner.

Recommendations

- 1. The Fair should improve its controls over cash management by reconciling the ATM transactions on a monthly basis or more frequently as necessary. In addition, the Fair should maintain records of all ATM activity including monthly transactions, machine printouts, recorded change fund balances, and bank account balances. This will ensure that all ATM deposits and disbursements agree with entries in the general ledger and amounts reported in the financial statements are accurate.*

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Fair did not establish an allowance for doubtful accounts for all outstanding accounts receivable balances that are uncollectible. An allowance for doubtful accounts should be recognized in the accounting records when an account is determined as uncollectible. A review of the accounts receivable balances in the Fair's general ledger indicated \$20,556 likely to be uncollectible. Account #131.2, Allowance for Doubtful Accounts, was not increased accordingly for this amount.

In addition, we noted a total of \$3,133 in Account # 131.1, Allowance for Doubtful Accounts, which was not reflected as open items in Accounts Receivable. The Fair had written off and removed the uncollectible receivables without an approved STD 27, Discharge from Accountability, from the State Controller's office. The Fair needs to request a discharge of accountability for uncollectible receivables of \$250 or more. Furthermore, the Fair double posted \$2,238 of uncollectible receivables in Allowance for Doubtful Accounts. Overall, Account #131.1, Allowance for Doubtful Accounts, was understated by \$18,318 (20,556-2,238) at year end. Therefore, the CDFA will make an adjustment to the financial statements at December 31, 2008 to accurately report the related amount for the Fair's allowance for doubtful accounts. This adjustment presents the Fair's assets more accurately.

Recommendations

2. *The Fair should ensure the accounts receivable balance at year-end only represents collectible accounts receivable balances. An allowance for doubtful accounts adjustment should be recorded for all outstanding receivables that are deemed uncollectible.*
3. *The Fair should begin the process of removing uncollectable accounts by obtaining Board approval and filing for discharge of accountability with the State Controller's Office. The Fair may write-off amounts up to \$250 with approval of the Board of Directors. For greater amounts, the Fair should obtain approval from the State Controller's Office.*

ACCOUNTING FOR FIXED ASSETS

The Fair has not taken corrective action for fixed asset transactions prior to closing its accounting records and preparing the annual statement of operations (STOP). The following are findings our office noted during the audit:

- a. The Fair did not properly capitalize and depreciate fixed assets as required by generally accepted accounting principles (GAAP) and the CDFA Fixed Asset Policy and Procedure Manual. Our office noted the Fair did not record three projects (Paving, Infrastructure, & Marquee Renovation) at full cost. Based on the California Construction Authority (CCA) closed project reports, the Fair understated Account #192, Buildings and Improvement, and its overall net resources by \$13,002. Additionally, the related Account #192.1, Accumulated Depreciation, was understated by \$5,209. This is a prior year audit finding.
- b. The Fair did not capitalize and depreciate a copier purchased for \$5,253 in 2007. The Department of Finance capitalization criteria require all fairs to capitalize all assets that cost more than \$5,000 and have a useful life of at least one year. By expensing the cost, rather than capitalizing, the Fair understated Account #193, Equipment, by \$5,253 and understated Account #193.1, Accumulated Depreciation - Equipment, by \$2,101. Furthermore, overall net resources were understated at year end 2008 as well. This is a prior year audit finding.

Recommendations

4. *The Fair should make the necessary correcting journal entries to ensure Account #192, Buildings and Improvements, is properly stated in the Fair's general ledger and property ledger. In the future, the Fair should review the CCA project closeout reconciliation prior to capitalizing an asset. This process will help ensure that the correct historical cost is reported in the Fair's general ledger.*
5. *The Fair should make the necessary correcting journal entry to fairly state Account #193, Equipment, in the general ledger and property ledger. In the future, the Fair should ensure that assets with an acquisition cost of at least \$5,000 and a normal useful life of at least one year are capitalized in the year the equipment is acquired.*

PERSONNEL

An audit of the Fair's payroll records disclosed that five employees maintained excessive leave balances. These employees maintained 733, 743, 749 and 1181 of vacation and annual leave credits and 386 compensated time off hours (CTO) at year end. According to the employees' related bargaining unit, the maximum vacation/annual leave balance that may be accumulated is 640 hours and 240 hours for CTO. An employee may maintain a running balance of 240 hours of CTO; however, overtime hours worked in excess of the balance must be paid. This is a prior year audit finding.

Furthermore, the Fair allowed fifteen temporary employees to work in excess of the 119-day limitation within a calendar year. Although the Fair monitored the number of days worked by each temporary employee, these employees worked ranging from 120 days to 251 days in 2008. According to the Division of Fairs & Expositions Accounting Procedure Manual (APM) Section 3 §4.34, temporary employees may not work more than 119 days in a calendar year.

Recommendations

6. *The Fair should ensure permanent employees do not accrue leave hours in excess of the required limits. The Fair should encourage the employees with excess balances to take time off, thereby reducing their accumulated leave balances.*
7. *The Fair should continue to monitor the number of days worked by temporary employees to ensure that the 119-day limitation is not exceeded. In addition, the Fair should comply with the APM by ensuring temporary employees do not work in excess of the 119-day limitation.*

OPPORTUNITY PURCHASING

The Fair did not comply with the Public Contracts Code and APM when making opportunity purchases. The Fair did not obtain written bids for purchases over \$5,000. The Public Contract Code (PCC) §10321 states that local businesses provide opportunity purchases to local fairs that may be purchased locally at a price equivalent or less than the price available through State purchasing program; however, to claim an opportunity purchase, the Fair must demonstrate and provide copies of bid information or exemption justification when necessary. Also, per APM §III, 2.2, the Fair must demonstrate that an opportunity purchase meets or beats the State price. This is a prior year audit finding.

Recommendations

8. *The Fair should follow PCC and the guidelines in the APM for claiming an opportunity purchase, which includes obtaining bids and documenting that the price for the opportunity purchase meets or beats the State price.*

NON-REPORTABLE CONDITIONS

COMPENSATED LEAVE LIABILITY

The Fair did not correctly adjust Account #245, Compensated Leave Liability, to reflect the appropriate amount as compared to the employee leave balances at year-end. Our audit determined that the liability for compensated absences was overstated by \$5,360. According to the APM, this balance should be updated annually prior to preparing the year-end financial records.

Recommendation

The Fair should review employee leave balances at year-end to ensure that account #245, Compensated Leave Liability, reflects the appropriate liability. This account should be adjusted annually.

CANCELLED CHECKS

An audit of the Fair's cancelled checks for the 2008 calendar year revealed that the Fair does not comply with the State Administrative Manual (SAM) 8041 and with the APM, which both require two signatures for checks written for \$15,000 or more. In addition, the Board of Directors established a policy that requires the Fair to obtain two authorized signatures for checks in the amount of \$15,000 and over. Our office noted three checks written in excess of \$15,000 that only bear the CEO's signature. In addition, the Fair did not maintain current bank authorization cards for our review as required by SAM 8001.2.

Recommendation

The Fair should ensure that it adheres to its check signing policy as established by SAM, the APM, and by its Board of Directors. All checks in excess of \$15,000 should contain two authorized signatures. Furthermore, the Fair should ensure bank authorization cards are available for audit.

FOOD & BEVERAGE EXPENDITURES

During our review of expenditures, we noted the Fair did not adequately support or justify expenditures incurred for food and beverages of \$3,910 in accordance with State policy and policy identified in the APM. Our office noted eight instances where the Fair did not specify the recipients' names, the business purpose for incurring the expenditures, justification of the expenditures, or the benefits expected to accrue to the Fair. According to the APM, claims for payment of promotional or public relations expenses must include the names of all recipients of the item or benefit and the purpose of the expenditure. A claim must justify the food or the benefit provided by the fair for entertaining State officials, patrons, or others at a restaurant, hospitality booth, or elsewhere. This is a prior year audit finding.

Recommendation

The Fair should follow the requirements of the APM by requiring that all claims for payment of promotional or public relations expenses include the names of all recipients of the item or benefit and the purpose of the expenditure, justification for the food or meal, specific business topics discussed during the event, and necessity of or the benefits expected to accrue to the Fair by entertaining. A claim not meeting all the requirements should not be approved for payment.

TEMPORARY EMPLOYEES

Review of employee files, payroll calculations, vacation/sick leave, and overtime records, as verified to time cards and Absence and Additional Time Worked Reports, Standard Form 634, revealed the following issues:

- a. The Fair did not enroll one temporary employee who exceeded the 1,000 hours limitation within a fiscal year into the Alternate Retirement Program (ARP). Our office noted no ARP deduction taken on the subsequent pay period after the employee exceeded the 1000 hours. Per Government Code Section 20305, if an individual who is employed on an other than per diem basis works 1,000 hours within the fiscal year, ARP membership shall be effective not later than the first day of the first pay period of the month following the month in which 1,000 hours of service is completed.
- b. The Fair did not always have a supervisor review and sign the timecards for temporary employees. According to the APM, all timecards must be reviewed and approved by a supervisor to ensure hours reported as worked by employees are appropriate. This is a prior year audit finding.
- c. The Fair did not sign the Employment Eligibility Verification, Forms I-9, after completing its review of the employment eligibility requirements for new employees. A signature by a Fair employee is required to indicate that all employment eligibility requirements have been reviewed and are satisfactory before an individual is hired by the Fair.

Recommendations

The Fair should comply with Government Code Section 20305 and enroll individuals who have worked at least 1,000 hours into ARP, effective the first day of the pay period of the following month.

The Fair should improve its controls over timecard maintenance by reviewing and approving time worked for all employees prior to the issuing of payroll checks.

The Fair should sign the Employment Eligibility Verification, Form I-9, when the employment eligibility requirements have been met and documented on the Form I-9.

INDEPENDENT CONTRACTORS

A review of the Standard 210 Agreements revealed that the Fair did not complete the Employment Development Department (EDD) DE 542 form for independent contractors as required by State Senate Bill 542. The Fair is required to report to EDD within 20 days of paying or contracting for \$600 or more with an independent contractor in any calendar year by submitting Form DE 542. According to EDD, any business or government entity that is required to file a federal Form 1099-MISC for services received from an independent contractor is required to report specific independent contractor information to EDD. This information is used by EDD to locate parents who are delinquent in their child support obligations.

Recommendation

The Fair should comply with State Senate Bill 542, which requires entities to report specified information to EDD on independent contractors within 20 days of either making payments totaling \$600 or more or entering into a contract in any calendar year, whichever is earlier, to avoid penalty for failure to comply within the required timeframe.

STANDARD AGREEMENTS

An examination of the Fair's standard 210 agreements revealed the following:

- a. The Fair's Standard 210 Agreements were not complete. We noted agreements lacked the Contractor Certification Clause (CCC-1005 form). In addition, the Fair did not always obtain bids for service contracts exceeding \$5,000. According to APM section 1.3, the Fair must obtain formal bids for those services that exceed \$5,000 using the Invitation for Bid (IFB) or Request for Proposal (RFP) process.
- b. The Fair did not withhold 7% of the amount paid to nonresident individuals as required by the Franchise Tax Board (FTB). The FTB requires withholding of income or franchise tax on payments of California source income made to nonresidents of California unless the nonresident individuals present Form 590, Withholding Exemption Certificate, to the withholding agent.

Recommendations

The Fair should ensure that it uses, tracks, and maintains fully completed Standard 210 Agreements for all of its personal service contracts. Additionally, the Fair should comply with APM section 1.3 and obtain formal bids for those services that exceed \$5,000 using the Invitation for Bid (IFB) or Request for Proposal (RFP) process.

The Fair should ensure that 7% is withheld from payments to nonresident individuals without Form 590 on file per the FTB requirements.

CASH ACCOUNTS / BANK RECONCILIATION

The Fair's cash receipts and bank reconciliations were analyzed for the audit period and the following conditions were identified:

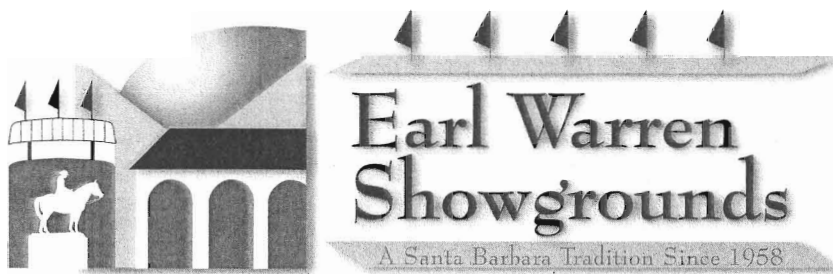
- a. The Fair does not comply with the State Administrative Manual (SAM) Section 8032.4 which requires that whenever coin and currency to be deposited exceeds \$3,000, two agency employees should be assigned to deliver the deposit jointly or two or more deposits may be made to reduce the cash transported at one time. We noted several instances that deposits over \$3,000 in currency were deposited by one employee. A single employee should not transport more than \$3,000 in coin and currency at one time. Dividing the cash or having two employees deliver the money provides safety to employees and helps maintain the integrity of the employee.
- b. The Fair has outstanding checks in the premium account totaling \$5,810 from prior years that remained uncashed. According to the SAM Section 8042, uncashed checks for over one year can be reverted back to the appropriate cash accounts. Listing and tracking outstanding checks for more than one year complicates the reconciliation process and increases the chances for errors.

Recommendations

The Fair should develop procedures that comply with SAM Section 8032.4 for whenever a deposit exceeds \$3,000 in cash and currency. Two agency employees should be assigned or two or more deposits should be made in order to provide safety and help maintain the integrity of employees.

The Fair should research which checks have been outstanding for over a year and perform the reversion per SAM Section 8042 guidelines.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



PO Box 3250 ♦ 3400 Calle Real ♦ Santa Barbara ♦ CA ♦ 93130-3250

September 8, 2008

Ron Shackleford, CPA
Audit Chief
CDFA Audit Office
1220 N Street, Room 344
Sacramento, CA 95814

Dear Mr. Shackleford,

We have received and reviewed the management letter and Management Report # 09-016 for the 19th District Agricultural Association year ended December 31, 2008.

We have received a total of eight (8) audit recommendations which we are required to address in writing. Some of the recommendations have already been remedied, some are in the process of implementation and all eight audit recommendations will be addressed and remedied within the coming year.

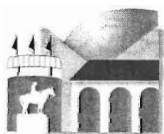
We found the auditors assigned to our district, Alicia Lauron and Hardeep, to be professional and courteous. We were able to complete the audit with a minimum of disruption to our ongoing operation.

The following comprise the District's responses to the recommendations contained in Management Report #09-016:

Reportable Conditions

1. The Fair should improve its controls over cash management by reconciling the ATM transactions on a monthly basis or more frequently as necessary. In addition, the Fair should maintain records of all ATM activity including monthly transactions, machine printouts, recorded change fund balances, and bank account balances. This will ensure that all ATM deposits and disbursements agree with entries in the general ledger and amounts reported in the financial statements are accurate.

***Response** – The District will continue to reconcile its ATM transactions on a monthly basis. The District will accrue expenses in the year that they are incurred. The District should maintain records of all ATM activity including monthly transactions, machine printouts, recorded change fund balances, and bank account balances.*



Conventions ♦ Exhibitions ♦ Banquets ♦ Special Events ♦ Equestrian Facilities ♦ Satellite Wagering

805-687-0766 phone ♦ 805-569-5595 fax ♦ www.earlwarren.com ♦ E-Mail info@earlwarren.com

2. The Fair should ensure the accounts receivable balance at year-end only represents collectible accounts receivable balances. An allowance for doubtful accounts adjustments should be recorded for all outstanding receivables that are deemed uncollectible.

Response – *The District will ensure that the accounts receivable balance at year-end only represents collectible accounts receivable balances. An allowance for doubtful accounts adjustments will be recorded for all outstanding receivables that are deemed uncollectible.*

3. The Fair should begin the process of removing uncollectible accounts by obtaining Board approval and for filing for discharge of accountability with the State Controller's Office. The Fair may write-off amounts up to \$250 with approval of the Board of Directors. For greater amounts, the Fair should obtain approval from the State Controller's Office.

Response – *The District has obtained Board approval and initiated the process of removing uncollectible accounts by and for filing for discharge of accountability with the State Controller's Office.*

4. The Fair should make the necessary correcting journal entries to ensure Account #192, Buildings and Improvement, is properly stated in the Fair's general ledger and property ledger. In the future, the Fair should review the CCA project closeout reconciliation prior to capitalizing an asset. This process will help ensure that the correct historical cost is reported in the Fair's general ledger.

Response – *The District will make the necessary correcting journal entries to ensure Account #192, Buildings and Improvement, is properly stated in the District's general ledger and property ledger. The District will review the CCA project closeout reconciliation prior to capitalizing an asset.*

5. The Fair should make the necessary correcting journal entry to fairly state Account #193. Equipment, in the general ledger property ledger. In the future, the Fair should ensure that assets with an acquisition cost of at least \$5,000 and a normal useful life of at least one year are capitalized in the year equipment is acquired.

Response – *The District will make the necessary correcting journal entry to fairly state Account #193. Equipment, in the general ledger property ledger. The District will ensure that assets with an acquisition cost of at least \$5,000 and a normal useful life of at least one year are capitalized in the year equipment is acquired.*

6. The Fair should ensure permanent employees do not accrue leave hours in excess of the required limits. The Fair should encourage the employees with excess balances to take time off, thereby reducing their accumulated leave balances.

Response – *The District will encourage permanent employees to take leave hours so as to prevent accumulation of hours in excess of the required limits. The District will encourage the employees with excess balances to take time off, thereby reducing their accumulated leave balances.*

7. The Fair should continue to monitor the number of days worked by temporary employees to ensure that the 119-day limitation is not exceeded. In addition, the Fair should comply with the APM by ensuring temporary employees do not work in excess of the 119-day limitation.

Response – *The District will make every effort to comply with the Accounting Procedures Manual by ensuring that temporary employees do not work in excess of the 119-day limitation.*

8. The Fair should follow PCC and the guide lines in the APM for claiming Opportunity Purchase, which includes obtaining bids and documenting that the price for the opportunity purchase meets or beats state price.

Response – *The District will follow PCC and the guide lines in the APM for claiming Opportunity Purchase, which includes obtaining bids and documenting that the price for the opportunity purchase meets or beats state price.*

The Board of Directors of the 19th District Agricultural Association sincerely hopes that these are satisfactory responses. It is always the desire of the Board of Directors to comply with all standard practices.

If there is any additional information required or any questions concerning this response please contact us.

Sincerely,



Scott Grieve
Chief Executive Officer
19th District Agricultural Association



Edgar Sands
President
Board of Directors
19th District Agricultural Association

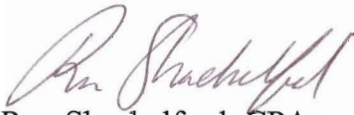
CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 19th DAA, Santa Barbara Fair and Expo, for its review and response. We have reviewed the response and it adequately addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between June 8, 2009 and June 19, 2009. My staff met with management on June 19, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read "Ron Shackelford", is positioned above the printed name.

Ron Shackelford, CPA
Chief, Audit Office

June 19, 2009

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 19th DAA Board of Directors
1	Chief Executive Officer, 19th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office